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ACCOUNTING AS AN ADMINISTRATIVE AID¹

A. FROM THE VIEWPOINT OF THE BUSINESS MANAGER

Business administration is largely a matter of control—control and direction of the various factors involved in the conduct of a business enterprise. The basis of control is information. In fact, business control, and hence scientific administration, may be said to consist of the proper application of information correctly interpreted.

Business methods and practices are changing so rapidly, new problems are arising so frequently, and conditions vary so widely in different localities and different lines of business that set rules for the administration of a business cannot be established. It is true that there are certain general principles which may be regarded as more or less universally applicable, but their particular application in each specific case must be influenced by current information in regard to the factors involved. It is, of course, untrue to assume that the business executive is not influenced by precedent or that his acts are governed entirely by present expediency, but it is important to realize that he is continually revising his past conclusions and policies in the light of present information—information in regard to the past and information in regard to the probable future.

When business organization was simple and the business enterprise small and its activities local, the owner, who was also the manager, was able to obtain without assistance the necessary information upon which to base the conduct of his business. This is still true in some cases, for instance, the village storekeeper. He may keep his accounting records, plan his sales campaign, determine the extent and nature of the advertising to be done, select the goods to be purchased, secure the necessary funds from sources which he chooses, and actively direct, if not actually perform, all the executive operations of his business. He is able

¹The writer is indebted for certain parts of the subject-matter of this article to his colleagues Mr. George E. Frazer and Mr. A. C. Hodge.

to do this because the information upon which he bases his actions is usually obtained in the daily routine of business or, if not, is obtained without material effort since the factors concerned are few in number, simple in nature, and local in extent. Moreover, the information involved is sufficiently simple, so that the owner is able to interpret and correlate it without difficulty.

Since business organization has become more complex, it is impossible for the executive manager of the business enterprise of material size to perform all the functions suggested in the case of the village storekeeper. It is impossible for the manager of a large department store, for instance, actually to direct, much less actually perform, the work necessary for its administration. As a consequence in such a business and every business of material size the management must rely on various specially trained individuals, subordinate managers they may be called, to assist in the formulation and the execution of its administrative policies.

To understand the function of such subordinates it is only necessary to notice the working organization of any modern corporation. The authority for the conduct and control of a corporation is vested in the stockholders, but they usually find it expedient to delegate this authority to a number of directors, who, by training and experience, are more expert in deciding upon the policies to be followed. The directors, although they may be skilled in the administration of certain types of business, find it wise to delegate their authority, in part at least, to certain officials who are expert in the conduct of the particular industry concerned. The officers, in turn, find that although they are competent to decide upon the general policies to be followed, it is necessary for them to employ various specially trained men who are technical experts in the specific phases of the firm's activities who will assist in the formulation and execution of its executive policies.

Thus the president or general manager may have subordinate to him and reporting to him:

1. A sales manager, who is in charge of the marketing of the products or services upon whose sale the business depends for its chief revenue. This sales manager may also have subordinates, as, for example, one in charge of domestic and one in charge of

foreign sales; and subordinate to or co-ordinate with him there may be an advertising manager with his staff.

2. A merchandise manager, in the case of a trading business, who supervises the purchase of the goods to be sold. In a large business he would be assisted by various subordinates who are specialists in certain types of merchandise purchasing.

3. A production manager, in a manufacturing business, who is responsible for supplying through production the amount of the product or service necessary to supply the demands of the customers. The purchasing of materials necessary for this purpose would be in charge of a general purchasing agent who might or might not be subordinate to the production manager, but who in any case must co-operate with him.

4. A financial manager, who is responsible for the formulation and execution of the financial policy of the business. Usually he is not given final authority in cases of material importance, but it is his duty to provide the information which will serve as a basis for formulating the financial policy of the business and to execute that policy after it is formulated. Subordinate to the financial manager, who is sometimes called the treasurer or controller, there may be a credit manager and a collection manager. In any case there must be close co-operation between the financial manager and those who guard the credits of the firm.

5. Miscellaneous managers, such as superintendent of buildings, operating superintendent, employment manager, etc., whose titles indicate their duties.

The foregoing list of subordinates who assist the president or general manager in the formulation and execution of the policies of the firm is intended to be suggestive rather than inclusive. The ones mentioned are those which are necessary to supervise and control the functions which are common to all businesses. In every mercantile and industrial business, at least, sales must be made, the goods or services sold must be produced or purchased, the operations of the business must be financed, and the equipment and material necessary for carrying on these operations must be secured and its maintenance provided for. Since it is necessary that these functions be performed, it is expedient that duties be

delegated along functional lines and, in so far as it is possible, that managers be appointed who are proficient in particular functions and that responsibility be placed accordingly. Of course, in the smaller business the same manager may be responsible for two or more functions as outlined above, but this does not destroy functional responsibility; it means only that this manager is acting in a double capacity.

The employment of such functional managers makes the problem of control more complex and the need for information which will serve as a basis of such control more imperative. Functional control if it is to be exercised in a rational way will necessitate information of three kinds: (1) information which will enable the chief executive officer or officers to determine the general policies of the business and the duties which should be delegated to the functional managers; (2) information which will enable each functional manager to perform properly the duties delegated to him and to co-ordinate his activities with those of all the other functional managers; (3) information which will enable the chief executive officer or officers to judge as to the efficiency with which the duties delegated to the functional managers have been performed by them.

It can readily be realized that it is impossible for the executive managers of a business of appreciable size to obtain without assistance the information stated above. Moreover, it is impossible for the managers to interpret such a mass of detailed statistics as would be involved in obtaining such information so as to use it as a basis of rational administration until it has been rearranged, classified, and presented in simplified form. In other words, it is necessary that the chief executive and the functional managers receive reports which provide the information which is necessary to serve as a basis of management. Such reports can be trustworthy and effective only when they are based on accounting records which have been designed and constructed in the light of the operations and organization of the particular business concerned. Thus it can be seen how accounting becomes an aid and a vital aid in business administration.

But if accounting is to serve as a basis of functional control it must be something more than it has been in most cases in the past—it must be something more than a history of past results, which serves as a history only, and something more than a statement of present conditions, which does not show how the present came to be or indicate what the future may bring forth. As previously stated, business management is largely a matter of control, and control necessarily involves the future. The past is gone and cannot be changed, and it is only future operations over which control can be exercised. Accounting, therefore, if it is to serve as the basis of functional control, must not only give information which will show the result of past operations, which is of course highly important, but it must give that information in such a form that it can be used as the basis for planning future operations. It must not provide records which show only the net profit or loss for one period, but it must provide records from which information can be obtained which can be used to plan for an increase of profit during the next period. Furthermore, it must provide for reports which will serve as a current check on the operations which result from these plans. Accounting, if it is to serve as an aid in administration, must provide information which can be used as a basis of action and not information which can serve only as a basis of repentance.

Although the activities and operations of different businesses vary widely, there are, as stated above, certain functions which are common to all mercantile and industrial concerns, at least. These functions may be stated as follows: (1) the sales campaign; (2) purchase and stock control; (3) production planning; (4) plant maintenance and extension; (5) funding of credit required and credit extended.

If accounting is to serve as a basis for functional control it must provide information which will serve not only to make possible the performance of each of these functions but also to co-ordinate them into a well-formulated business program. To discuss the use of accounting in the control of each of these functions is beyond the scope of this article, but this use can be illustrated

by a brief explanation of the relation of accounting to one of these functions, the sales campaign.

The owners or officers of either a trading or manufacturing industry must of necessity estimate the probable sales of their business for each season or fiscal period. These estimates may be made very unscientifically and may be recorded very informally, or they may be made as a result of a very careful analysis of all the factors involved and be presented by means of a formal report, but in either case an estimate must be made as a basis for planning for the future. In the case of a trading business, the volume of purchases made and the provisions for handling them are dependent upon the sales anticipated. In the case of the manufacturing business, the volume and nature of production is dependent upon the sales estimated. The principles involved in the making of the sales estimate are very similar in both trading and manufacturing industries, but the application and use of the information provided by the estimate is somewhat different in the two cases, so for the purpose of the present illustration the preparation and use of the sales estimate in the sales program of a trading business will be considered.

It is self-evident that in a mercantile store goods must be purchased and placed upon the shelves or in the wareroom before they can be sold. The management must make estimates, however scientific or unscientific, as to the volume and character of the sales expected to be made in a given period before the buyers for the store can make contracts and select the quality and amount of goods that the store is to offer for sale. The small retailer whose business is restricted to one commodity, say a dealer in rare oriental rugs, may say he will buy when he can and plan for the sale of the merchandise when he has it in his possession. But a large retail business, such as a department store, which sells many thousands of different items of merchandise, must set up a program of what sales are expected to be if purchases are to be made intelligently in the source markets all over the world, and it is necessary for the purchases to be completed before the customers of the store come to buy. Even in the case of the dealer of oriental rugs, it is probable that he will learn by experience that certain

kinds or types sell more readily than do others, and consequently he will seek those kinds when he makes his purchases. In so far as he does this he is estimating future sales and being guided thereby. In other words, he is making an informal sales estimate.

The sales anticipated as reflected in the sales estimate not only affect the buyers in the purchase of their goods, but also affect the plans of the various functional managers of the business. The officers of the store who are responsible for providing proper space for counter stocks, for reserved stocks, and for wareroom stocks must have before them some tangible data as to what stocks will be purchased, when they will be sold, and in what volume. The operating managers must work with an estimate of sales at hand if sales persons are to be secured and trained properly. So also the operating officials must anticipate the volume and character of sales to a fairly accurate degree if they are to employ a proper number of repair persons, packers, wrappers, telephone operators, delivery men, etc., and if they are to train these employees into an efficient working force animated with the service ideals of the store and thoroughly familiar with operating schedules of retail selling and order buying.

The treasurer or other officer charged with financing the purchases and expenses of the store must have very definitely in mind the volume of revenue from sales that the store may reasonably expect to receive from week to week, even from day to day. The owners themselves or the president or general manager as their agent must carefully study expected sales when investing capital in new divisions or departments of the store, or making additions or extensions of the plant, or in deciding with reference to forms of customers' credits.

In short, the owners and officers of a wholesale or retail store of appreciable size must set up a sales program for each season or fiscal period in order that the customer may receive proper services from co-ordinated purchasing, operating, financing, maintenance, and extension. For instance, in a department store if the linen buyer in Belfast, the shoe buyer in Boston, the millinery buyer in New York, and the grocery buyer in Chicago are to work as a unit they must know not only the volume of sales in their own

lines, in making contracts, but also the volume and character of sales expected in all departments of the store so that they may select and purchase qualities and quantities complementary and supplementary to all other lines of goods handled by the store. But the linen buyer in Belfast and the shoe buyer in Boston must not only work in harmony with each other; they must work in harmony with the traffic manager, the head packer, and the superintendent of the delivery service. The one vital point of contact between the selector of merchandise and the operating man who handles the order for the customer is that they both premise their work on the same expectancy or estimate as to the volume and character of business. It can be readily seen, therefore, that correct and accurate information in reference to sales anticipated is of the utmost importance in the internal control and management of a modern commercial business. Although many and varied reports are made in reference to sales which present information of various kinds which is of value in sales control, the sales report of primary importance from the viewpoint of planning future operations is the sales estimate.

The sales estimate is a report which gives in a more or less summarized yet comprehensive form the sales desired and deemed possible during the next fiscal sales period. In making such an estimate of future sales many factors have to be considered. Although these factors are almost innumerable and the information necessary for their consideration and interpretation is almost indefinable, such information for the convenience of discussion may be considered as of two kinds: (1) knowledge of trade conditions which is obtained as a result of market analysis; (2) knowledge of the amount and nature of previous sales as shown by the accounting records which involves sales analysis and comparison. From the foregoing it can be seen how very vital is a knowledge of the probable future sales in the control, not only of the sales department, but also in the control of the other functions of the business, since these functions are all closely interwoven. It can also be seen how necessary accounting records and reports are in arriving at such an estimate of sales. Without accurate information in regard to past sales, such as can only be obtained from the account-

ing records and reports, no dependable estimate of future sales is possible.

The sales campaign has been discussed somewhat at length because the sale of goods or services is the ultimate object of all businesses organized for profit. Although the effect of the estimated sales upon the other functions of the business has been emphasized in the foregoing discussion, if each of these other functions were discussed in detail it would be seen that the estimated sales would also be influenced by a consideration of them. For instance, it would be indeed foolish to attempt to make sales to a greater amount than it is possible to purchase or manufacture. It would also be unwise to attempt to make sales which would involve operations of the business to an extent beyond what the business would be able to finance. In many other ways it might be pointed out how all the functions mentioned above are closely interrelated and how a consideration of one of them involves a consideration of all the others.

The foregoing discussion suffices, however, to show that the consideration of any of these functions involves the use of certain information which can be obtained only by means of accurate accounting records. It can be seen, therefore, without going into a detailed discussion of each of these functions, that accounting is a prerequisite to functional control, and that functional control is a necessity for scientific business management.

In the foregoing discussion emphasis has been placed upon the value and use of accounting as a basis of planning future operations. Planning of future operations involves the making of estimates of future results. As indicated above such a conception of the function of accounting is opposed to the more or less prevalent view. Most accountants will contend that their duty is that of the historian and not that of the prophet; that they can certify to what has happened but cannot certify as to what may happen. From the viewpoint of the public practitioner this attitude is in the main justified. He is usually employed at the end of a fiscal period and is required in a brief space of time to prepare reports showing the financial condition of the business and the results of its past operations. In the brief time at his disposal his ability is

often taxed to the utmost to ascertain past results. He is familiar with the operations and policies of the business only as they are reflected in the accounting records. He has no control over the future operations of the business and he would be rash, indeed, to risk his professional reputation in an attempt to estimate future results. In so far, therefore, as the public practitioner is performing the duty of an auditor he is justified in confining himself to an estimate of past results and refusing to enter the realms of prophecy.

However, the permanent accounting staff of the business occupies a different position, and a failure on its part to provide information and reports which may serve as a basis of estimates or to assist in the formation of such estimates is unjustifiable. It is familiar with the operations and policies of the business, it has some control of and relation to future operations and has the opportunity to revise its estimates in the light of current operations, and its reputation is not impaired by an incorrect estimate as is that of the public practitioner. If it fails to provide for such estimates which can be used as a basis of future operations it fails to perform the function which is the chief justification for its existence. In the case of the public practitioner, when he is called upon to construct records he must have in mind the formulation of such estimates and he must be sure that the records which he installs will provide information which will make such estimates possible and not provide information which will serve only as a basis of the conventional balance sheet and statement of profit and loss. Too often the accountant in the installation of an accounting system regards the *pro forma* balance sheet and statement of profit and loss which he is accustomed to making at the end of the fiscal period as the ultimate goal of accounting and constructs his system accordingly. As a consequence the accounting records too often do not serve as an aid in administration, but only as a means of providing postmortem evidence. Probably in the future the business public will come to realize that all accounting reports are but estimates—estimates based on the best facts available and the professional judgment of the one who makes the estimate. It may then be realized that though estimates of past results, such as the conventional balance sheet and statement

of profit and loss, may be more certain, estimates of future results, such as the sales estimate, production budget, purchase budget, selling expense budget, etc., are equally useful. In this case accounting records and reports will become a more valuable aid in administration and control than they have been in the past.

Although in the preceding discussion the use of accounting reports as a basis for internal management has been emphasized because the chief function of accounting is to serve as a basis of functional control, it of course must be realized that the business has relations with certain parties outside the business and that accounting reports are necessary to serve as a basis of these relations. A few of these parties may be mentioned by way of illustration.

The various parties who have investments in the business desire to be able to judge of the profitableness of that investment and the desirability of continuing it or of adding to it. It may also be found desirable to interest additional investors and thus secure additional capital to extend the business and place it on a more profitable basis. Needless to say, the prospective investor will demand that information be furnished him to give him some idea of the condition of the earning power of the business before he will risk his funds by investing them therein.

Investments in the modern business enterprise are made on a variety of terms. Different classes of investors have different kinds of claims on the business, as regards the amount of income they may expect, the guaranties for the payment of that income to them, the conditions under which their investment is to be returned to them, and the security which they have for the safety of the investment. There are marked points of difference in the claims on both capital and income among the holders of the most common types of corporation securities, such as common stock, preferred stock, cumulative or non-cumulative, mortgage bonds, collateral trust bonds, equipment trust certificates, and so on. It follows from all this that accounting records must be kept, not only for the use of the internal managerial organization, but also in such a manner as to permit the preparation of reports that will set forth clearly the status of each of the different classes of investors,

not only to protect the rights of each class in the distribution of net profit, but also to enable each to estimate closely the value of his investment or proposed investment.

Another class which is keenly interested in the financial and operating health of the business enterprise is the creditors. There are two chief kinds of creditors beside the bondholders, who have already been included among the investors, though strictly speaking they are really long-time creditors. The two kinds of short-time creditors are (1) trade creditors, and (2) commercial banks. Both classes typically require reports setting forth the financial condition of the concerns which apply to them for credit. Some commercial credit agencies and many banks have standard forms upon which applicants for credit are required to make reports. The emphasis in these reports is somewhat different from that in reports to owners and long-time creditors like bondholders, but on the whole they usually contain about the same information as the latter. Neither type of report presents as difficult a problem in accounting as the first class mentioned, namely, the reports for managerial purposes.

Most businesses are of sufficient importance, owing to their size or to the nature of their product, so that they involve a public interest in the way that they are carried on. There is nothing new or strange about this as applied to the so-called "utilities," such as the common carriers, the gas and electric companies, etc. In the case of these businesses it is recognized that the public is closely concerned and regulation is regularly undertaken, with the double purpose of making sure (1) that the service rendered is adequate and satisfactory in quality, and (2) that it is rendered at a reasonable rate. It is easy to see that no regulatory body could hope to accomplish much along the lines indicated, unless it were furnished with reports showing the amount of investment in the company in question along with its earnings and expenses. Otherwise it would certainly be in no position to judge whether the company was earning enough to pay its investors a return sufficient to keep their capital in the business over a long period and to attract additional capital as it is needed in order to keep pace adequately with the demands of the public for the goods or services in question. As a result we find that practically every

company of this character is required by some regulatory body to make reports on standardized forms at certain times. The records that must be kept in order to prepare these required reports are as a rule such as would serve well enough as a basis for preparation of reports to investors or to creditors but would not furnish enough analysis for purposes of managerial reporting.

The necessity of reporting to government agencies is not confined to the utilities, however, but extends now to practically every business enterprise. The requirements of reporting for the purpose of the income, excess-profits, and war-profits taxes have practically forced even the most insignificant businesses into some sort of record-keeping. During the war the interest of society as a whole in the individual business reached a point of development previously unknown. The raw materials and supplies used, the transportation facilities, the labor supply, the financing, the disposal of the product, and the rate of profit, all received the attention of the government as the exigencies of the war seemed to make it desirable. It is fairly safe to predict that in the future two things will be true as a result of this war-time regulation: (1) There will be a greater degree of government regulation of private business than in the past, necessitating for many businesses more complete records than they formerly kept. (2) Many small businesses, having had the matter of reporting forced upon their attention, will arrive at a better realization of its importance, and will in the future maintain more adequate systems of records and make more use of reports within the business.

It can be seen therefore that in the administration of a business the management is brought into relation with various parties both within and without the business organization. The success of the business is dependent upon the result of the operations which arise from these relationships. To exercise proper control and direction of these operations, classified and summarized information is necessary, and this information can be obtained only from reports made from the accounting records. Probably, therefore, there is no better way to summarize what has been said with reference to the value of accounting as an administrative aid than to give the following suggestive though not inclusive outline of the various

parties interested in the modern business, and demanding reports prepared from the records kept in that business:

1. The managerial staff
 - a) President, or general manager
 - b) Sales manager
 - c) Head merchandise man, or purchasing manager (in a commercial business)
 - d) Factory superintendent, or production manager (in a manufacturing business)
 - e) Controller, or financial manager
 - f) Other functional managers, varying with the organization of the business
2. Investors, present and prospective
 - a) Stockholders of various classes
 - b) Bondholders also of various classes
3. The creditors
 - a) Trade creditors
 - b) Commercial banks
 - c) Other creditors
4. The government
 - a) For regulation of the price
 - b) For regulation of the quality
 - c) For purposes of taxation
 - d) For purposes of limitation on the amounts of certain materials and services that can be used
 - e) For the protection of those employed—regulation of hours, wages, working conditions, child labor, female labor, etc.

B. FROM THE VIEWPOINT OF THE COLLEGE INSTRUCTOR

In the foregoing discussion an attempt has been made to emphasize the importance and value of accounting as an aid in administration from the viewpoint of the business manager. It is the purpose of the remainder of this article to point out the effect of such a conception of the purpose and function of accounting upon the organization and content of college courses in this subject.

There is probably no other course in the college curriculum which has grown so rapidly in popularity in the last few years as accounting. This growth in popularity is attested, not only by the rapidly growing number of colleges and universities which have added courses in this subject, but also by the increasing number of courses offered in the institutions where it has already been

established, and even more so by the enormous increase in the number of students taking these courses. It is not strange, therefore, since college courses in accounting have had such a mushroom growth, that the instruction offered in the subject is rather disorganized and unstandardized.

There can scarcely be found any two institutions which give courses with the same content, and the present tendency seems to be toward a wider divergence rather than to a nearer uniformity. However, if the courses offered in the various institutions can be judged from the descriptions given in the official bulletins, they can be classified under about three heads according to the purpose which the organizers of these courses seem to have in view.

In some institutions courses have been organized and taught by public accountants and very naturally they regard the purpose of such courses to be the preparation of students for public accounting work and the subject-matter presented has been arranged accordingly. In these courses the principal emphasis has been placed upon the construction of accounting records and the auditing of such records after they have been constructed.

In some institutions courses have been organized and taught by men who have had their preliminary training in economic theory and they have deemed the purpose of such courses to furnish a sort of complementary training to that obtained in other courses in economics. Consequently they have emphasized the use of accounting as a means of social control and have given their principal attention to a consideration of the various theories and problems of valuation, discount and premium on bonds and stock, the distinction between capital and revenue charges, the treatment of interest, and similar questions.

In the third place, there is a sort of nondescript group some of which are inclined toward the first group mentioned and some toward the second group: Instructors of some of these courses have originally been instructors of bookkeeping in secondary schools and in such cases they insist upon rather extensive training in bookkeeping practice and routine. Such training is given presumably upon the theory either that the student is preparing to do such work upon completion of his college course or that an

understanding of detail and technique is necessary in order to understand the principles of accounting which are presented in the advanced courses.

The reasons for each type of courses can be explained in the main on historical grounds. The first courses organized in accounting were generally in connection with evening schools, and the students who took these courses were usually employed as book-keepers or junior accountants. The public accountants who taught these courses naturally assumed that the ultimate goal of at least the majority of such students was the practice of accounting as a profession, and they organized their courses accordingly. Such courses performed a useful function, and at the present time such courses probably fulfil the needs and wishes of the majority of the students attending the various evening schools of commerce. When courses in accounting were first introduced into the curricula of day courses they were usually placed in the economics department and were taken by students who were interested in education from the social rather than the business viewpoint. They were taught by instructors whose training had been of an academic nature, and it is but natural that the use of accounting as an instrument of social control should be emphasized and that the second class of courses described above, should result. Here again the wishes and needs of the majority of the students enrolled in these courses were probably satisfied at the time that these courses were originally organized. The third class of courses is the result of the previous training of the instructors or of the attempt of the instructor to follow one of the other type of courses with certain modifications. Generally these courses have been the least satisfactory and would seem to have a less definite object and function than either of the other groups.

Although it can be seen that the courses now given in schools of collegiate grade are more or less the result of the circumstances existing at the time of their origin, and probably fulfilled a useful function at that time, it would seem that circumstances have so changed within the past few years that there is a need for courses in this subject which have a different function from those described above. As suggested above, when courses in accounting were

first organized as a part of the college curricula there were no separately organized schools of commerce whose avowed purpose was the training of students for administrative positions in business. Recently, however, such schools of commerce have been organized in connection with most of the universities of even moderate size, and the courses in accounting are invariably a part of the curricula of these schools. Since the courses in accounting are a part of the curricula of the schools of commerce, it would seem that the function of the curricula as a whole will have to be considered before the function of the accounting courses can be determined.

Those who have had experience with undergraduate students realize that few of them know in what phase of business activity they will engage until near or after graduation. Even if they are decided as to their future work, in the present organization of industrial society it is impossible for one to be proficient in any type of business or any department of a particular business without a considerable familiarity with other types and the other departments. It is impossible to study all the various types of businesses or the various forms of organizations which are found in different businesses, but the functions common to all businesses and the general principles of organization can be mastered. It would seem, therefore, that it is the function of the undergraduate course in commerce to give such a training rather than to emphasize the technique of any particular business or profession. In other words it is the function of such a course to show the student the relation of the "business manager" to the various factors which are involved in the conduct of the business enterprise.

Such a conception of the function of the school of commerce curriculum is well expressed in the following statement, which gives the minimum requirements in the Business Division of the School of Commerce and Administration, University of Chicago. They are, of course, additional to English, foreign language, and other requirements of the University in general.

1. The manager's relation to the physical environment and technique:

Courses: Geography 3 and 5; Physics and
Chemistry desirable

2. The manager's relation to finance:
Courses: Financial Organization of Society;
Manager's Administration of Finance
3. The manager's relation to personnel:
Courses: Labor Conditions and Problems;
Manager's Administration of
Labor
4. The manager's relation to risk:
Courses: Risk and Risk Bearing
5. The manager's relation to the market:
Courses: Commercial Organization I and II;
Foreign Trade Course desirable
6. The manager's relation to social control:
Courses: Business Law I, II, III;
Social Control of Business Activity
desirable
7. The manager's relation to administrative control:
Courses: Statistics; Accounting I, II, III

The function of the course in accounting in such a curriculum is well indicated in the foregoing outline—it is to teach the student the use of accounting as an instrument of administrative control. It is not the primary function of such courses to train the student to become a professional accountant nor to use accounting as a means of social control, nor to become proficient in bookkeeping technique. Therefore neither of the three groups of courses discussed above will suffice. Probably not 10 per cent of the students enrolled in such a school will desire to practice accounting, and probably not 5 per cent are interested in accounting as an instrument of social control as a primary consideration. Of course, all business men are interested in the relation of their business to the agencies of social control. The great majority of such students expect to be concerned in business administration in the many various fields, and they are interested in accounting, not in a technical way, but only as emphasized in the previous discussion, as an administrative aid. If accounting is to be presented as an aid in administration it requires a different presentation from that provided by the orthodox courses in this subject. Consequently in the institution mentioned above the accounting courses have been organized with this aim in view.

An introductory course of three months is given which is designed to give the student an understanding of the purpose and function of accounting, the nature of the accounting process as a whole, and some knowledge of accounting practice and technique. One outstanding characteristic of the course is that it does not look at accounting from the bookkeeping viewpoint and hence does not commence with a discussion of debit and credit. On the contrary it emphasizes from the beginning the use of accounting as a means of making reports which can be used in business management. Consequently the balance sheet and statement of profit and loss are studied as an illustration of such reports and then the accounting records are introduced as the means by which the information is obtained which is necessary to make these and the various other reports to be studied later. It can be seen, therefore, that the use of accounting as an administrative aid is emphasized from the first day of instruction. This method of attack is illustrated in the outline at the end of this article.

After this introductory course the remainder of the year is devoted to a consideration of the use of accounting in the control of the various functions of a business which were listed above. This involves the consideration of the use of accounting in the preparation of estimates and budgets which can be used as a basis of future plans. After a brief discussion of the use of accounting as a means of investment control, consideration is given to the formulation of the sales program, which serves as a basis of all the other plans of the business. The preparation of the buying budget and the production budget which are premised on the sales estimate is considered in considerable detail as are the selling and advertising expense budget, the maintenance and depreciation budget, and the financial budget. Not only is the preparation of the various budgets considered, but particular emphasis is placed on the reports necessary to exercise control over these estimates and to make possible their revision as the results of the period demand. Although some attention is given to the accounting records which serve as a basis of supplying some of the information contained on these reports, particular emphasis is placed on the fact that many of the most important statistical data used in

business management are not obtained from debit and credit records, but from supplementary sources such as salesmen's reports, sales tickets, delivery records, etc. It is also emphasized that it is the use of the reports in business management which is of primary importance, and not the technique of the records from which the information is obtained. In other words the student continues to look at accounting from the viewpoint of the business manager rather than from the viewpoint of the bookkeeper. The subject-matter covered is indicated to some degree in the brief outline given at the end of this article.

All students enrolled in the school of commerce take this year's course. Those who are interested in accounting as a means of social control take in addition courses which emphasize this phase of the subject. Obviously these students should be familiar with the operations over which control is to be exercised before attempting to study the use of accounting as a means of control. The first year's work must necessarily be a prerequisite therefor. Those who expect to enter the accounting profession take, in addition to all the foregoing courses, courses in accounting practice and technique and in auditing. It should be obvious that if the student is to study the construction of records and the preparation of reports from the viewpoint of the public practitioner he must first understand the nature of the information which the business executive desires for whom these records and reports are to be prepared. He needs, therefore, to understand the use of accounting as an executive or administrative aid before attempting to obtain a professional knowledge of it.

Such an organization of college courses in accounting offers a course which will satisfy the needs of all students, both those who wish accounting as a part of a general business training and those who wish it as a professional training. For the benefit of those who may be interested a brief outline of the first year's work as discussed above is appended hereto.

A FIRST YEAR'S WORK IN ACCOUNTING

PART I. POLITICAL ECONOMY IO

This is the introductory course in the field of accounting, designed to supply the student with an understanding of the accounting process as a whole, and with some knowledge of actual practice and technique. It is intended to furnish preparation necessary for taking up any of the special courses which follow it, and an attempt is made to give the student a vision of the various standpoints from which reports may be required, leaving the fuller development of these various uses of reports for the later courses.

I. The accounting process**A. Meaning and function of accounting**

1. To furnish information desirable in control and management of the business
 - a) As regards internal problems and organization
 - b) As regards external relations

B. Accounting reports as an executive aid

1. Balance sheet
2. Statement of profit and loss
3. Miscellaneous reports

C. The account as a means of classifying and summarizing information

1. Nature and function of the account
2. Construction and interpretation of specific accounts
3. Summarizing the accounts at the end of the period for reporting purposes

D. Books of record as a means of collecting and recording information as a basis of the accounts and reports

1. Nature of books of record
2. Illustration of records for particular purposes

E. Business papers and vouchers as original evidence of business transactions

1. Nature and function of such vouchers
2. Illustration of business papers for particular purposes
 - a) Negotiable
 - b) Non-negotiable
3. Their relation to the books of record

II. Development and elaboration of the accounting process**F. Specialized forms of records**

1. Purchases
 - a) Purchase routine in different types of business
 - b) Some basis for purchase analysis
 - c) Methods of recording

2. Sales
 - a) Sales routine in different types of business
 - b) Some basis for sales analysis
 - c) Methods of recording
3. Cash
 - a) Relation of bank to handling of cash
 - b) Internal checks—the voucher system and petty cash funds
 - c) Methods of analysis and recording
- G. Construction and interpretation of particular accounts
 1. Fixed assets
 2. Working assets
 3. Expense and revenue accounts
 4. Proprietorship and net profits
 - a) In general
 - b) As modified by the corporate form of organization
- H. Construction and interpretation of accounting reports
 1. The conventionalized forms—balance sheet and profit and loss statement
 - a) Basis for classifying and grouping the items
 - b) Their use for credit purposes
 - c) Their use in management control
 2. Some other possible forms of reports
 3. Use of graphical method in reporting

PART II. POLITICAL ECONOMY 101 and 102

These two courses deal with the use of accounts as a means of obtaining information which can be used in administrative control, primarily in internal management and control. At present the course is organized under the following heads:

- I. Investment control
 1. Control of assets and liabilities
 2. Control of income and expense
 3. Relation of accounting to functional control
- II. Sales control
 4. Sales analysis and sales reports as a basis of the sales program
 5. Advertising and selling expense accounts, reports, and budgets
- III. Purchase and stock control
 6. Relation of stock investment to sales program
 7. Purchase analysis and reports as a basis of the buying budget
- IV. Production control
 8. Control over stock made for future orders and special orders
 9. Control of materials, labor, and expense

- V. Control of plant maintenance and extension
 - 10. Maintenance expense
 - 11. New equipment and extensions
- VI. Financial control
 - 12. Cash requirements
 - 13. Credit control
- VII. Profits control and distribution
 - 14. Taxes
 - 15. Reserves
 - 16. Dividends
 - 17. Surplus
- VIII. Budget making and control
 - 18. Organization of subsidiary reports in budget for the whole business
 - 19. Organization of accounting and statistics for controllership

J. O. MCKINSEY

UNIVERSITY OF CHICAGO